

Message Text

LIMITED OFFICIAL USE

PAGE 01 OECD P 12606 01 OF 03 291509Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
EA-07 FRB-03 INR-07 IO-13 NEA-10 NSAE-00 USIA-06
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 STR-04 L-03 ITC-01 /092 W
-----291601Z 052305 /40

R 291517Z APR 77
FM USMISSION OECD PARIS
TO SECSTATE WASH DC 6380
INFO AMEMBASSY ATHENS

LIMITED OFFICIAL USE SECTION 01 OF 03 OECD PARIS 12606

PASS: CEA, TREASURY, FRB

E.O. 11652: N/A
TAGS: OECD, ECON
SUBJECT: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE
(EDRC) REVIEW OF GREECE

REF: EDR(77)11

1. SUMMARY: IN REFDOC CIRCULATED FOR MAY 6 EDRC REVIEW OF GREECE, SECRETARIAT PAINTS REASONABLY FAVORABLE PICTURE OF DEVELOPMENTS IN GREEK ECONOMY IN 1976. REAL GDP GROWTH OF 6 PERCENT BROUGHT ABOUT IMPROVEMENT IN LABOR MARKET SITUATION, AND INFLATION, THOUGH REMAINING HIGH, DECELERATED SOMEWHAT AT END OF YEAR. CURRENT ACCOUNT DEFICIT STABILIZED AT 1975 LEVEL (\$1.1 BILLION) AND WAS LARGELY FINANCED BY AUTONOMOUS CAPITAL INFLOWS. SECRETARIAT NOTES, HOWEVER, THAT PATTERN OF GDP GROWTH IN 1976 (SKEWED TOWARD CONSUMPTION) WAS INAPPROPRIATE FROM MEDIUM-TERM STANDPOINT. ON ASSUMPTION THAT FISCAL AND MONETARY POLICIES IN 1977 WILL BE LESS EXPANSIONARY AND THAT GROWTH OF NOMINAL INCOMES WILL BE MORE MODERATE THAN
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 12606 01 OF 03 291509Z

THEY WERE LAST YEAR, SECRETARIAT FORECASTS SLOWER GROWTH OF GDP AND SOME IMPROVEMENT IN PRICE PERFORMANCE (ALBEIT WITH SIGNIFICANT DEGREE OF SUPPRESSED INFLATION). DESPITE SLOWDOWN IN GROWTH, SECRETARIAT PROJECTS SMALL RISE IN CURRENT ACCOUNT DEFICIT IN 1977 DUE TO DETERIORATION OF REAL FOREIGN BALANCE. SECRETARIAT RECOMMENDS (A) ENHANCED EFFORTS TO FIGHT INFLATION THROUGH IMPLEMENTA-

TION OF COMPREHENSIVE INCOMES POLICY; (B) INCREASE IN SHARE OF MANUFACTURING OUTPUT IN GDP RELATIVE TO RESIDENTIAL CONSTRUCTION AND PRIVATE CONSUMPTION; (C) INCREASED EMPHASIS ON EXPORTS OF MORE SOPHISTICATED MANUFACTURED PRODUCTS; AND (D) IN CONTEXT OF (B) AND (C) ABOVE, PRIORITY ATTENTION TO INCREASE IN MANUFACTURING INVESTMENT OVER MEDIUM TERM. ACTION REQUESTED: MISSION WOULD APPRECIATE COMMENT/QUESTIONS WHICH COULD BE USEFULLY POSED AT REVIEW. (NOTE: REP FROM EMBASSY ATHENS WILL PARTICIPATE IN REVIEW.) END SUMMARY

2. SHORT-TERM PROSPECTS; DOMESTIC OUTLOOK: SECRETARIAT POINTS TO RELATIVELY FAVORABLE PERFORMANCE OF GREEK ECONOMY IN 1976. REAL GDP REGISTERED GROWTH OF ABOUT 6 PERCENT AND ENTRAINED IMPROVEMENT IN LABOR MARKET SITUATION. IN ADDITION, WHILE CONSUMER PRICES (FUELED BY 30 PERCENT RISE IN AVERAGE HOURLY EARNINGS IN MANUFACTURING) ROSE BY 13-1/2 PERCENT, SOME DECELERATION OF INFLATION RATE WAS EVIDENCED AT YEAR-END. SECRETARIAT INDICATES THAT SHARP INCREASE IN WAGES LED TO DECLINE IN PROFITS IN INDUSTRIAL SECTOR, BUT FEELS THAT IT IS UNWARRANTED TO CONCLUDE THAT A "PROFIT SQUEEZE" HAS DEVELOPED. SECRETARIAT INDICATES THAT SHARE OF PROFITS IN NATIONAL INCOME WAS TWICE AS HIGH IN 1973-75 AS IT WAS 10 YEARS EARLIER AND THAT RECENT FAST INCREASE IN WAGES PROBABLY REFLECTS BELATED CATCHUP TO "EARLIER DISTORTION" /SIC/.

3. OUTLOOK FOR 1977: ON ASSUMPTION THAT RESTRICTIVE SHIFT IN MONETARY AND FISCAL POLICY PLANNED BY GOG WILL LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OECD P 12606 01 OF 03 291509Z

ALSO BE MORE MODERATE, SECRETARIAT FORECASTS DECELERATION IN RATE OF GDP INCREASE DURING YEAR AND AVERAGE GROWTH RATE LESS THAN THAT REGISTERED IN 1976. (SECRETARIAT DOES NOT PRESENT SPECIFIC FORECAST.) MOREOVER, SECRETARIAT NOTES THAT GOG HAS SET LOWER CEILINGS FOR 1977 WAGE INCREASES IN PUBLIC AND PRIVATE SECTORS AND THAT MORE RESTRICTIVE MONETARY POLICIES WILL LIMIT EXTENT OF WAGE DRIFT IN PRIVATE SECTOR. ON THIS BASIS, AND TAKING ACCOUNT OF DECELERATION IN INFLATION RATE AT END OF 1976, SECRETARIAT BELIEVES THAT OFFICIALLY TARGETED (10 PERCENT) INCREASE IN CONSUMER PRICES CAN BE ACHIEVED. SECRETARIAT ADDS, HOWEVER, THAT GREEK PRICE OBJECTIVES MAY BE SOMEWHAT OVER-AMBITIOUS GIVEN OUTLOOK FOR WORLD PRICES AND THAT ATTAINMENT OF THIS GOAL IMPLIES CONTINUED HEAVY FOOD SUBSIDIES WHOSE LONGER-TERM ECONOMIC JUSTIFICATION IS QUESTIONABLE.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 OECD P 12606 02 OF 03 291516Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
EA-07 FRB-03 INR-07 IO-13 NEA-10 NSAE-00 USIA-06
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 STR-04 L-03 ITC-01 /092 W
-----291603Z 052598 /44

R 291517Z APR 77
FM USMISSION OECD PARIS
TO SECSTATE WASH DC 6381
INFO AMEMBASSY ATHENS

LIMITED OFFICIAL USE SECTION 02 OF 03 OECD PARIS 12606

4. CURRENT ACCOUNT: IN 1976, MILD INCREASE IN TRADE DEFICIT, WHICH WAS MORE THAN OFFSET BY MARKED INCREASE IN INVISIBLES SURPLUS, RESULTED IN STABILIZATION OF CURRENT ACCOUNT DEFICIT AT ROUGHLY 1975 LEVEL OF ABOUT \$1.1 BILLION. SECRETARIAT NOTES THAT CURRENT ACCOUNT DEFICIT WAS LARGELY FINANCED BY "AUTONOMOUS" CAPITAL INFLOWS (PRIMARY REMITTANCES FROM GREEKS LIVING ABROAD). SECRETARIAT UNDERLINES FACT THAT USE OF SUPPLIERS CREDITS WAS MINIMAL IN 1976 BECAUSE, IN SECRETARIAT VIEW, GREEK IMPORTERS WERE RELUCTANT TO INCUR EXCHANGE RISK.

5. FOR 1977, SECRETARIAT FORECASTS DETERIORATION OF REAL FOREIGN BALANCE, BUT FORESEES FURTHER INCREASE IN INVISIBLES SURPLUS. THUS, BARRING DETERIORATION IN TERMS OF TRADE, SECRETARIAT FEELS THAT RESULTING SMALL INCREASE IN CURRENT ACCOUNT DEFICIT IN 1977 SHOULD TO A LARGE EXTENT BE COVERED BY REMITTANCES, AS WAS THE CASE LAST YEAR. ACCORDINGLY, SECRETARIAT DOES NOT EXPECT GREEKS TO ENCOUNTER EXTERNAL FINANCING PROBLEMS IN SHORT RUN.
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 12606 02 OF 03 291516Z

6. FISCAL AND MONETARY POLICY: ALTHOUGH CENTRAL GOVERNMENT BUDGET DEFICIT IN 1976 WAS GENERALLY IN LINE WITH GOG INTENTIONS AND WAS RELATIVELY NEUTRAL IN ITS ECONOMIC IMPACT, "EXTRA BUDGETARY" EXPENSES (E.G., FOOD SUBSIDIES) INCREASED OVERALL PUBLIC SECTOR DEFICIT AND GAVE FISCAL POLICY AN EXPANSIONARY THRUST. SIMILARLY, MONETARY POLICY WAS ACCOMMODATIVE (M1 INCREASE OF 22-1/2 PERCENT) THROUGH MOST OF 1976 WITH MOVEMENT TOWARD RESTRICTION AT END OF YEAR. SECRETARIAT JUDGEMENT IS THAT EXPANSIONARY MONETARY POLICY IN 1976 WAS A PRIME FACTOR CONTRIBUTING TO POSITIVE WAGE DRIFT. GOG PLANS MORE RESTRICTIVE FISCAL AND MONETARY POLICIES FOR 1977 AND HAS SET TARGET OF 20 PERCENT FOR GROWTH OF DOMESTIC CREDIT EXPANSION. (SECRETARIAT NOTES THAT GIVEN LIKELY DEFICIT ON CURRENT ACCOUNT, THIS TARGET IMPLIES GROWTH OF TOTAL CREDIT AND OTHER MONETARY AGGREGATES ROUGHLY EQUAL TO GROWTH OF NOMINAL GDP -- I.E., ABOUT 15-16 PERCENT.)

7. MAIN CONCLUSIONS: BASED ON ANALYSIS REFD0C, SECRETARIAT SUGGESTS THAT EDRC COME TO FOLLOWING MAIN CONCLUSIONS:

(A) MORE RESTRICTIVE DEMAND MANAGEMENT POLICIES SHOULD BE SUPPLEMENTED BY COMPREHENSIVE INCOMES POLICY TO MODERATE GROWTH OF NOMINAL INCOMES AND PRICES. THIS WILL REQUIRE THAT GOG GET BETTER HANDLE ON DEVELOPMENT OF NON-WAGE INCOMES AND ON RELATED PROBLEMS OF TAX AVOIDANCE AND EVASION.

(B) GOG SHOULD WORK TO INCREASE SHARE OF MANUFACTURING IN GDP AT EXPENSE OF PRIVATE CONSUMPTION AND RESIDENTIAL CONSTRUCTION AS PART OF AN OVERALL PROGRAM OF INDUSTRIAL RESTRUCTURING AND MODERNIZATION.

(C) GREEKS SHOULD PLACE INCREASED EMPHASIS ON EXPORT OF LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OECD P 12606 02 OF 03 291516Z

MORE SOPHISTICATED MANUFACTURED PRODUCTS SINCE, OVER LONG TERM, GREEK COMPARATIVE ADVANTAGE IN TRADITIONAL MANUFACTURES (E.G., TEXTILES, SHOES) IS LIKELY TO DECLINE.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 OECD P 12606 03 OF 03 291527Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
EA-07 FRB-03 INR-07 IO-13 NEA-10 NSAE-00 USIA-06
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 STR-04 L-03 ITC-01 /092 W
-----291600Z 052911 /44

R 291517Z APR 77
FM USMISSION OECD PARIS
TO SECSTATE WASH DC 6382
INFO AMEMBASSY ATHENS

LIMITED OFFICIAL USE SECTION 03 OF 03 OECD PARIS 12606

(D) ACHIEVEMENT OF GOALS (B) AND (C) WILL REQUIRE SUB-
STANTIAL INCREASE IN MANUFACTURING INVESTMENT.

8. COMMENT: (A) SECRETARIAT INDICATES THAT GDP GROWTH
IN 1977 IS LIKELY TO BE LOWER THAN THAT REGISTERED IN
1976, BUT DOES NOT COMMENT ON OUTLOOK FOR EMPLOYMENT AND
UNEMPLOYMENT. MISSION WOULD QUESTION GREEKS ON THIS
POINT; (B) SECRETARIAT STATES THAT CURRENT ACCOUNT DEFICIT
WAS LARGELY FINANCED BY REMITTANCES IN 1976 AND
EXPECTS THIS TO HOLD TRUE IN 1977 AS WELL. IN ADDITION,
SECRETARIAT NOTES THAT SIGNIFICANT PORTION OF THESE
REMITTANCES WERE SPENT IN GREEK ECONOMY IN 1977, RATHER
THAN HELD AS FOREIGN EXCHANGE DEPOSITS SUSCEPTIBLE TO
WITHDRAWAL AT SHORT NOTICE. HOWEVER, SECRETARIAT ADDS
THAT IT WOULD BE PREFERABLE FOR GOG TO ARRANGE FOR FORWARD
EXCHANGE COVER, SO THAT GREATER USE COULD AGAIN BE
MADE OF MORE NORMAL COMMERCIAL CREDIT FACILITIES (INCLUDING
SUPPLIERS CREDITS). WHILE PROVISION OF FORWARD
EXCHANGE COVER WOULD FACILITATE TRADE, MISSION WOULD
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 12606 03 OF 03 291527Z

QUESTION SECRETARIAT RECOMMENDATION THAT GREEKS TURN
INCREASINGLY TO COMMERCIAL CREDITS IN CIRCUMSTANCES WHERE
DEPOSITS OF REMITTANCES DO NOT CONSTITUTE VOLATILE SHORT-
TERM DEPOSITS OF FOREIGN EXCHANGE; (C) SECRETARIAT NOTES
THAT INCREASE IN INVESTMENT IS NEEDED OVER MEDIUM TERM
AND THAT GREEK FIVE-YEAR PLAN (DETAILS OF WHICH HAVE NOT

YET BEEN ANNOUNCED) IS LIKELY TO INCLUDE MEASURES WHICH
WILL ADDRESS THIS NEED. MISSION WOULD ASK GREEKS TO
ELABORATE ON THEIR PLANS FOR STIMULATING INVESTMENT;
(D) SECRETARIAT STATES THAT LOWERING OF CEILINGS FOR
WAGE INCREASES IN 1977 GIVES SOME CAUSE FOR OPTIMISM
CONCERNING COURSE OF PRICES. OBJECTIVE SET FOR PRIVATE
SECTOR WAGE INCREASE IS 15 PERCENT. ASSUMING NO CHANGE
IN EMPLOYMENT IN 1977 AND GDP INCREASE OF 5 PERCENT,
WAGE GUIDELINE IMPLIES 10 PERCENT RISE IN UNIT LABOR
COSTS. THUS, GOG HAS APPARENTLY SANCTIONED AN UNDERLY-
ING RATE OF INFLATION OF ABOUT 10 PERCENT. MISSION WOULD
ASK GREEKS TO COMMENT ON FACTORS WHICH ARE TAKEN INTO
ACCOUNT IN SETTING WAGE GUIDELINES.
TURNER

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, REPORTS, COMMITTEES, STUDIES, FINANCIAL TRENDS
Control Number: n/a
Copy: SINGLE
Sent Date: 29-Apr-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977OECDP12606
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770150-0611
Format: TEL
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t1977044/aaaaadet.tel
Line Count: 292
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: a1a02aa2-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 01-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2755440
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE (EDRC) REVIEW OF GREECE
TAGS: ECON, GR, OECD, EDRC
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/a1a02aa2-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009